



**TN State Veterans' Homes Board**

*"Proudly Serving Those Who Served"*

Report to the Fiscal Review Committee

July 26, 2006

## BACKGROUND

The Tennessee State Veterans Homes Board (TSVHB) was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. The primary purpose of the homes is to provide support and care for honorably discharged veterans who served in the United States armed forces. The primary source of revenue is income generated from patient care.

The Board operates two facilities. The Murfreesboro facility opened in 1991 and Humboldt in 1996. A third home in Knox County is expected to open October of this year. Funding for a fourth home has been obtained from the State Legislature, the City of Clarksville, and Montgomery County, and it is expected that construction will begin in late 2007 or early 2008.

The Board managed the financial operations of the Murfreesboro home from its opening in 1991 until construction began on the home in Humboldt in 1994. The bond documents for the debt related to construction were written in such a way that required the Board to contract with a long-term care management company. ServiceMaster Diversified Health Services (DHS) managed the facilities from 1994 until problems developed for the company in Kentucky. The principals of DHS established a new management company, BEP, and the management contract was transferred by the Board from DHS to BEP in 2000. Unfortunately, the principals could not protect themselves from the problems that occurred in Kentucky, and BEP declared bankruptcy in 2002.

At that time NHC took over management of the homes until 2005 when the Board decided to bring management in-house. Each management company managed the homes according to its standards instead of the requirements and mandates of a State agency.

The Board relied upon the management company for the day-to-day operations of the homes. The management company was paid a monthly fee, plus a percentage of revenues, paid semi-annually, without regard to actual collections. There was no incentive for the management companies to pursue collections on accounts receivable. This led to an extended period where no one truly took ownership of patient accounts receivable.

During this period, management did not address and resolve audit findings, building a history of repeat audit findings. When issues presented in the audit were addressed, decentralization and lack of employee training negated the attempts.

### **FY 2004**

The written guidance provided to Audit Committees by the Comptroller and Director of State Audit recommend that management provide a written evaluation of risks identified in the most recent audit as a first step in the risk assessment process.

The Board received the published audit for fiscal year ending June 30, 2004 in May 2006. There were 19 audit findings, all of which were addressed in management's report to the Audit Committee.

The findings include multiple areas of concern including inadequate policies and procedures, inadequate accounts receivable practices for credit balances, lack of collections efforts, capital assets and capital asset records, purchasing processes and practices, internal controls for information systems, lack of organization of records, segregation of duties for processing of payroll, misuse of company assets (fraud – cell phone), non-compliance with IRS regulations on reporting use of company provided car, bank accounts not in compliance with Finance and Administration policy, Medicaid eligible residents with excessive resident trust funds, Medicaid residents charged more than private pay residents, and failure to timely file a Title VI Plan.

Management's comments and progress made on resolution of the findings are presented later in this report.

### **FY 2005**

#### **A Year of Major Changes**

The use of management companies was discontinued in fiscal year 2005 and the Board moved to self-management of the nursing homes. This change necessitated the acquisition of computer hardware and a systems network between the homes and executive office. Acquisition of industry-specific software was required to carry out the clinical and accounting operations of the homes.

Systems implementation included software for clinical and billing, human resources and payroll processing, general ledger, consolidated reporting, central supply inventory tracking and billing, and dietary resident assessment. Although training of staff was held on the new software, transition was complicated by many factors, including the following:

- Move to windows based software, including learning how to use a mouse
- Requirements of set-up on clinical and billing software no one truly understood at the time
- The inter-relationship and number of systems to learn
- Set up of charge master for chargeable supplies had been done by management company now became responsibility of management
- Accounts payable checks under the old system had been hand written and entered manually; were now system generated and printed at the facilities
- Information on the old software could only be entered for the one month currently open; the new software allowed entry based on the general ledger date the user entered when posting creating entries with incorrect general ledger dates

- Payroll information had been entered into the old system, but management company processed payroll, printed checks, made tax deposits, and filed all applicable tax reports, including year end W2's; payroll processing and filing of tax reports and tax deposits now became responsibility of management
- Neither payroll nor accounts payable staff had ever printed systems generated checks
- The business office became responsible for Medicare billing which had been handled by the management company
- Learning new procedures and reports from new system
- While the old system could be used by staff with limited backgrounds, new software required personnel with appropriate training and education in their job positions
- Limited staff members
- Procedures were not done timely as staff attention was focused on correcting errors; e.g., account reconciliations were not done in a timely manner
- Lack of internal controls prevalent in all aspects

The transition to the new software was a struggle due to the complexity, the number of systems involved, the learning curve of employees, and a lack of employee understanding of how each function affected other functions and responsibilities. For the majority of the fiscal year the Finance Director was the only person in the accounting or finance department. In February 2006, a second person was hired as staff accountant.

These factors have been identified to the Board in the past. While the Board has been informed that the FY 2005 audit would not be good, being forewarned does not make the findings easier to accept.

State Audit has indicated the possibility of a few audit findings being eliminated and/or consolidated in its audit of fiscal year 2005. However, new findings will be included that will address the areas outlined above.

#### **FY 2006**

#### **A Step in the Right Direction**

In July 2005, a change was made from processing payroll in-house to outsourcing payroll processing by ADP. This has been a very positive change and shifts the burden of payroll tax compliance. This change also provides for segregation of duties for the processing of payroll.

A second positive change was the change to accounting software with electronic requisitions and an integrated fixed assets module. The accounting software provides greater control on purchases and automates the approval process. It also eliminates the use of paper purchase orders which were not controlled previously and imposes structure on the purchasing process.

The State Legislature made an appropriation to the State Funding Board to assist the Board in resolving repeat audit findings. It was determined that the first step should be a review of the accounting and business practices of TSVHB, to include recommendation for improvement in priority order. A contract was awarded to Horne LLP after an RFP (Request for Proposal) process. Horne LLP reviewed the accounting and business

practices of the Board. Its recommendations were issued in its report dated November 4, 2005. The first three priorities were identified as follows:

- Assist in the research of old accounts receivable balances: report issued May 18, 2006
- Assist in the development of a comprehensive set of written policies and procedures: report issued April 14, 2006
- Assist in reconciling the physical property records to the financial records for property and equipment: report issued January 20, 2006 and restatement of accumulated depreciation completed in March 2006

Other recommendations from the report, listed by priority, include:

- Perform the internal audit function
- Reimbursement Operations Review

Additional projects:

- FY 2005 Cost Report
- Update to the accumulated depreciation records
- Assist in the risk assessment process
- FY 2006 Cost Report

Eight months have elapsed since the initial report was issued by Horne LLP. In that time period, management has taken seriously its responsibilities to implement controls, provide training for staff, test for compliance, and enforce consequences.

Management focused on the development of policies and procedures and approved a Business Office Policies and Procedures Manual in January 2006 and an Accounts Payable Policies and Procedures Manual in February 2006. These manuals were reviewed by Horne LLP in April 2006 and certain modifications and new policies were developed jointly.

Immediately upon the approval of the policies and procedures manuals, management provided staff training on new responsibilities and expectations. Compliance testing began in February 2006. The compliance testing revealed areas that were non-compliant and needed further in-service and training. Management has continued to instruct staff on the policies and procedures, followed with verbal and written reprimands where necessary.

Accounts receivable is a second area that has been a focus for management. With the assistance of staff in the Department of Finance and Administration, we were able to match individuals with outstanding balances to death certificates in records maintained by Vital Statistics. The business offices identified other accounts to submit to the Board that were deemed uncollectible for various reasons, including timely filing deadlines. The Board approved accounts in October 2005 and January 2006 for write off as uncollectible. The State approved the write-off request in June 2006. This write-off of accounts totaled \$1,307,344.82 at the Murfreesboro home and \$508,622.59 at

Humboldt, for a total of \$1,815,967.41. The entire amount of the write-off is for dates of service prior to self-management.

Murfreesboro opened operations in 1991 and Humboldt in 1996. There was another write-off of accounts in either 1995 or 1996. This is the first write-off of uncollectible accounts in 10 or more years. Revenues reported for fiscal years 1995 through 2004 are \$96.7 million. The amount written-off this year represents 1.67% of patient revenues over the same time period.

Another request for write-off will be presented at the July or August 2006 Board meeting based on accounts identified as uncollectible in the Horne LLP report on accounts receivable. After this, management will make an annual request to the Board to keep the accounting records accurate.

Credit balances within our Medicaid accounts receivable identified by Horne LLP as due to the VA per diem have been adjusted and established as a contingency on the balance sheet. Resolution of this issue will be pursued by management and the Board this calendar year.

With the write-off and adjustment of Medicaid credit balances, the accounts receivable balances will reflect a more accurate picture of the accounts due the Board at June 30, 2006.

Operating and non-operating revenues generated in fiscal year 2005 total \$15,423,085. Those same revenues total \$16,021,093 for fiscal year 2006, an increase of \$598,008 or 3.9%. Collections during fiscal year 2006 would be for 2006 and all prior years and total \$16,038,285. This indicates strong collections in 2006 of both current year and prior years' revenues.

The third area of focus has been in the purchasing and accounts payable areas. The Board approved the purchase of new accounting software in the fall of 2005. Conversion occurred at the end of October 2005. This software has an electronic requisitions module whereby all purchases are initiated and routed through an approval tree for appropriate review and authorization. Only after appropriate approvals are received is the requisition made into a purchase order, and, at that time, can the order be placed. Previously there were stacks of paper purchase orders that were kept by department managers and proper procedures were not being followed.

Our compliance testing shows marked improvement in the purchasing area, including initiation of requisitions and documentation of receipt of goods and services. All accounts payable packages are reviewed prior to checks being printed to make sure complete documentation is included with the accounts payable files.

The reconciliation of fixed assets and restatement of accumulated depreciation at June 30, 2005 provided by Horne LLP was outsourced for import into the accounting records. The adjusting journal entries to reconcile the accounting records to the physical count totaled \$22,292, or just .17% of total fixed assets. The Finance Director must reconcile current year purchases and dispositions and recalculate depreciation expense for year end close. Accounting records for fixed assets will be expected to be maintained

monthly so that the records are accurate. Management expects this reconciliation to be completed in August 2006.

The Board's Audit Committee was created at the March 2006 Board meeting. The Committee has been active and involved in the review of the June 2004 audit, which was issued in May 2006, and in the exceptions noted by State Audit in the June 2005 audit. The Committee is working with State Audit and with management to prioritize and resolve audit findings.

## **FY 2007**

### **Planning for Greater Success**

The Executive Office has been restructured to better position itself to address and resolve audit findings. Staff increases are in the accounting and finance area and in compliance. A copy of the revised organizational chart is attached.

The business offices were placed under the Finance Director in spring 2006. This moved billing and collections, accounts payable, and payroll functions from the administrators to finance. This move gives the Finance Director the authority as well as the responsibility to resolve audit findings. The administrators and finance director cooperate when enforcing policies and procedures. This collaboration and teamwork is necessary to support and enforce the Board's direction.

In addition to the move of the business office and accounting functions, the Board hired a Director of Patient Financial Services to manage and supervise the business office functions. The Director of Patient Financial Services has 16 years in the long-term health care industry and is experienced in both the accounting field and in the billing and collections of claims.

The Board recently hired a former State auditor with experience in the TSVHB audit to fill the position of Controller. This individual will be a key employee in the resolution of audit findings and in on-going operations.

The position of Contract Officer is included in the restructure. This position is responsible for bringing all Board and facility contracts into compliance with State requirements, especially in the area of service contracts. An organized approach to identify and prioritize the needs of the Board and homes will produce results in compliance with State regulations.

These additions to staff will allow management to center attention on a formal risk assessment process, begun in June 2006. Horne LLP will assist management in the design and development of a risk assessment made of business functions. This process will also help identify areas that require policies and procedures or that lack effective internal controls. This risk assessment will provide for further prioritization of efforts over the next fiscal year. Horne LLP will also assist in the development and implementation of ongoing and continued evaluation of risks and review of internal controls. It will begin the internal audit function once the risk assessment is completed.

The Board has an opportunity in fiscal year 2007 to demonstrate its ability to properly manage its operations with the opening of the Knox County nursing home. Properly

trained personnel who possess competencies in their job functions, appropriate staffing, understanding and adherence to policies and procedures, monitoring for compliance, and strong support from management are key components to our success. With a fourth home on the horizon, management must ensure strong internal controls are in place and are functioning properly.

Because of the timing of its annual audits, the Board will constantly be required to look back and explain operations from two years ago. Please refer to the following references, taken directly from *T.C.A.*

**58-7-111. Annual audit.**

The comptroller of the treasury shall make an annual audit of the program established by this chapter as part of the comptroller's annual audit pursuant to § 9-3-211.

**9-3-211. Annual audit in each political subdivision and special taxing district.**

(a) An annual audit of financial records and transactions covering each fiscal year shall be made of each department, office, agency, division or board which is charged with the care and control of public funds, in each political subdivision and special taxing district and which is not now required by law to be audited by the office of the comptroller of the treasury.

(b) Such audit for each fiscal year shall be made and completed no later than the close of the succeeding year.

**It is the request of management that the Audit Committee discuss with the Comptroller's Office and State Audit performing an audit of fiscal year 2006, to be completed, with audit report issued, prior to the end of June 2007, as stated in *T.C.A.***

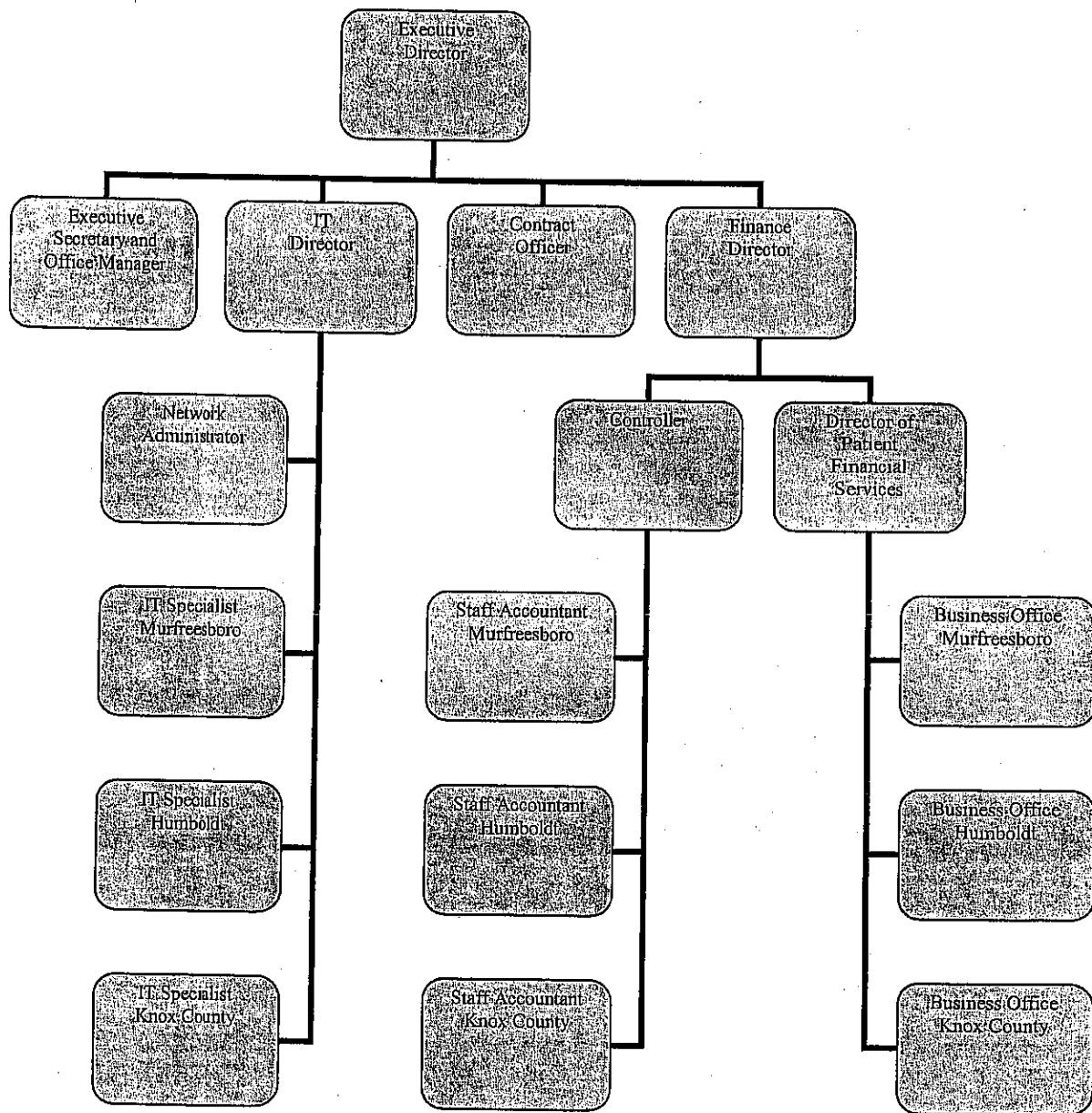
We believe progress has been made in fiscal year 2006 and that improvement will be evident in the fiscal year 2006 audit. This is not to say all audit findings have been addressed, but those identified as priority in previous audits and in the Horne LLP report are closer to expected and acceptable standards. Management will continue to work on and improve its business and accounting practices with a goal of a greatly improved audit for fiscal year 2007.

The remainder of this report duplicates the Report to the Audit Committee of June 28, 2006 and addresses the audit findings for fiscal year ended June 30, 2004. Additional comments by management are included at the end of each finding. The response and additional comments to the audit findings follows the attachment for the executive office organizational chart and job descriptions for the Director of Patient Financial Services and Controller.

Questions or comments on any item included in this report should be addressed to the finance director.



TENNESSEE STATE VETERANS' HOMES BOARD  
EXECUTIVE OFFICE ORGANIZATIONAL CHART  
JULY 1, 2006



**Job Title:** Director of Patient Financial Services  
**Department/Location:** Finance/Executive Office  
**FLSA Status:** Exempt

**Summary:**

Directs and oversees the financial operations of the business offices of the agency, including responsibility for enhancing and maintaining a properly functioning revenue cycle process. The position requires a working knowledge in the areas of patient registration, billing, accounts receivable (AR) and cash management requirements, managed care contractual terms and requirements, health insurance practices, industry regulatory requirements, business office operations, AR and financial reporting technology, basic accounting, and industry standards for healthcare revenue resolution management practices.

**Essential Duties and Responsibilities:**

- Financial management skills, including the ability to financially analyze data for operations, budgeting, auditing, forecasting; basic accounting knowledge; AR and reserve analysis; staffing and financial reporting skills
- Ability to analyze and resolve problems that affect the claim submission process
- The ability to make a significant contribution to the organization's overall effectiveness
- Oversee month-end close of billing software of multiple sites and coordinate closing schedule with financial reporting needs
- Monitor receivables levels (days in AR and aging), and any long-range strategic plans for the department
- Coordinate year-end audits and/or third-party auditors as they relate to AR operations
- Mediate and resolve disputed issues regarding annual audit and/or third-party auditors, and investigative parties
- Monitor and support daily staff functions in all areas related to revenue cycle, denial management, and private pay collections.
- Maintain appropriate internal control safeguards over AR records and collection of cash
- Maintain compliance standards for providing accurate information on all facility or health system billings
- Ensure compliance with relevant regulations, standards, and directives from regulatory agencies and third-party payers
- Oversee the financial interface between and performance analysis of the business office functions and accounting functions
- Oversee the integrity of billing and clinical interfaces, including a review and analysis of monthly RUGS scores
- Ensure reimbursement rate changes and room rate changes are properly entered into billing software
- Direct ongoing programs for staff development, which include appropriate training for staff based on job functions and responsibilities
- Carries out other assignments or special projects as assigned

**Supervisory Responsibilities:**

Directly supervise business office managers and indirect supervision of business office staff. Carry out supervisory responsibilities in accordance with the agency's policies and applicable laws. Responsibilities include interviewing, hiring and training employees; planning, reviewing with business office managers the assigning and directing of work; review performance appraisals; rewarding and disciplining employees; addressing complaints and resolving problems.

**Skills and Abilities Required:**

- Leadership: a demonstrated ability to lead people and get results through others.
- Strategy and planning: an ability to think ahead and plan over a 1-2 year time span.
- Management: the ability to organize and manage multiple priorities.
- Information systems development and implementation.
- Problem analysis and problem resolution at both a strategic and functional level.
- Technical skills and experience in financial reporting and analysis, cash flow management, risk assessments, and evaluations of internal controls.
- Employee training and development.
- Excellent interpersonal and communication skills.

**Education and Experience Required:**

Bachelors degree required, preferably in accounting, health or public administration, management, or a related field.

A minimum of 5 years management experience in the healthcare receivables field required, with a work record that demonstrates:

- In-depth knowledge of long-term care billing and reimbursement
- Leadership in the core values of the organization
- Clear, effective communication skills
- A mature approach to problem-solving for all types of issues

This job description in no way states or implies that these are the only duties to be performed by this position. The employee will be required to follow any other job-related instructions and to perform any other job-related duties requested by any person authorized to give instructions or assignments.

This document does not create an employment contract, implied or otherwise, other than an "at will" relationship.

**Job Title:** Controller

**Department/Location:** Finance/Executive Office

**FLSA Status:** Exempt

**Summary:**

Directs and oversees the financial activities of the agency, including preparation of current financial reports prepared in accordance with generally accepted accounting principals and with the Governmental Accounting Standards Board.

**Essential Duties and Responsibilities:**

- Oversee the activities of the accounting department for accurate and timely financial reports including, but not limited to, internal and external monthly financial statements, annual audits, and annual budgets.
- Establish closing schedules and coordinate month end and year end closing processes with business office staff.
- Oversee disbursement activities to ensure the accurate and timely processing of accounts payable, purchase orders, resident petty cash, travel claims, payroll processing, and debt service requirements.
- Work in conjunction with business offices to ensure the accurate and timely management of all accounts receivable aging components including billings, cash receipts application, adjustments to accounts, etc.
- Oversee quarter and year-end payroll closing including federal and state reports and compliance with IRS regulations.
- Direct preparation of annual budgets and plans of operation for multi-facilities and executive offices.
- Serve as liaison to external auditors and assume lead in annual audit process of agency's books and records.
- Assess current accounting operations and offer recommendations for improvement and implementation of new procedures.
- Assist in risk assessment evaluations and evaluations of internal control systems.
- Participate in a wide variety of special projects and compile a variety of special reports.
- Communicate with co-workers, management, Board members, Audit Committee members, and others in a courteous and professional manner.
- Conform with and abide by all regulations, policies, work procedures, and instructions.

**Supervisory Responsibilities:**

Directly supervise accounting staff and carry out supervisory responsibilities in accordance with the agency's policies and applicable laws. Responsibilities include interviewing, hiring and training employees; planning, assigning and directing work; appraising performance; rewarding and disciplining employees; addressing complaints and resolving problems.

**Skills and Abilities Required:**

- Leadership: a demonstrated ability to lead people and get results through others.
- Strategy and planning: an ability to think ahead and plan over a 1-2 year time span.
- Management: the ability to organize and manage multiple priorities.
- Information systems development and implementation.
- Problem analysis and problem resolution at both a strategic and functional level.
- Technical skills and experience in financial reporting and analysis, cash flow management, risk assessments, and evaluations of internal controls.
- Employee training and development.
- Excellent interpersonal and communication skills.

**Education and Experience Required:**

Bachelor's degree in Accounting, plus MBA or CPA certification.

Must have seven or more years of hands-on accounting managerial experience.

This job description in no way states or implies that these are the only duties to be performed by this position. The employee will be required to follow any other job-related instructions and to perform any other job-related duties requested by any person authorized to give instructions or assignments.

This document does not create an employment contract, implied or otherwise, other than an "at will" relationship.

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|---|---|
| Finding                                 | 1. TSVHB has not evaluated fraud risks and does not have adequate policies and procedures to address risks which the auditors have previously identified.   |
| Management comments                     | <p>Risk assessments have not been done, leaving the board open to fraud, waste and abuse. Without risk assessments, internal controls cannot be developed to effectively mitigate identified risks. This report to Audit Committee is the beginning of the process and will be followed by a more complete assessment and monitoring with future reports to the Audit Committee.</p> <p>The board has developed policies and procedures during the past fiscal year and worked to educate and train staff on these new and/or expanded policies and procedures. Accounting policies and procedures still in progress.</p> |
| Risk assessed                           | <p>1. Risk of fraud, misappropriation and theft of assets, inappropriate use of credit, unauthorized purchases, and overstated travel claims.</p> <p>2. Inadequate policies and procedures</p>  |
| Controls put into place                 | <p>1. Phase 1 of risk assessment currently in progress</p> <p>2. Updated and current policies and procedures</p>  |
| Evaluation                              | Good faith effort has been made by management to address risks identified by audit. Process still incomplete.   |
| Corrective action or consequence        | <p>1. Policies and procedures must be further updated as part of the risk assessment process. Accounting policies must be developed to address all functions.</p> <p>2. Management is aware of the expectations of the Board and will provide evidence to the Audit Committee of its efforts toward improving processes, strengthening internal controls, educating staff on policies and procedures, and monitoring for compliance.</p>  |
| Monitor                                 | Scheduled reports to the Audit Committee  |
| Audit Committee:<br>assess for adequacy |   |

Further Comments:

The Report to the Audit Committee dated June 28, 2006 was the first step in the risk assessment process. The report focused on the audit findings of fiscal year June 30, 2004, our most recent audit, and management's assessment of controls put into place to address the risks identified in the audit. A formal risk assessment is now under way and will focus on the entity as a whole.

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| Finding                                 | 2. For the eighth consecutive year, fraud risks and financial statement distortion created by inadequate receivables practices have not been mitigated.  |
| Management comments                     | <p>Medicaid credit balances identified in the AR Report by Horne LLP have been adjusted off the AR balances and set up as a contingency on the balance sheet until such time as resolution is achieved between the State TN Care Program and the Board.</p> <p>Other credit balances have been created in the ULTRACare system in an account referred to as 'unapplied cash'. Amounts posted to this account should clear in the next billing cycle when an invoice is created and any payment received prior to the bill can now be posted. However, the account has not been worked correctly. The senior accountant has worked with the business offices to clear the account as part of the year end closing procedures. A policy to address the unapplied cash account should be developed for inclusion in the Business Office Manual.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Large credit balances skew accounts receivable and distort financial statements.</li> <li>2. Decisions made by the board may be based on misleading data.</li> <li>3. Lack of policies and procedures to address credits in patient AR</li> <li>4. Lack of understanding of billing software</li> </ol>  |
| Controls put into place                 | None   |
| Evaluation                              | Not effective  |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Senior accountant to work with business offices and finance director to develop appropriate policies and procedures to be incorporated into the Business Office Manual. Policies should address risks identified by State Audit and risks identified in management's risk assessment process.</li> <li>2. Senior accountant will review and make recommendation for additional staff training on billing software.</li> </ol>  |
| Monitor                                 | <ol style="list-style-type: none"> <li>1. Need suspense date for policies and procedures</li> <li>2. Need suspense date for report from senior accountant</li> <li>3. Monthly review of the unapplied cash report by the senior accountant and the business office manager. Carryovers from prior month to be researched and documented.</li> </ol>  |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

At the end of June 2005, Medicaid credit balances totaled \$1,134,113. At June 30, 2006, this amount was reduced by \$671,940 to \$462,173. Management believes this finding may not be repeated in fiscal year June 2007.

TENNESSEE STATE VETERANS HOMES BOARD  
REPORT TO THE FISCAL REVIEW COMMITTEE  
JULY 25, 2006

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| Finding                                 | 3. For the third consecutive year, accounting records do not portray a true picture of receivables, and the risk of theft of resident funds was not addressed.   |
| Management comments                     | <p>The board received State approval to write off accounts submitted in October 2005 and January 2006. The write off of accounts will provide a more accurate portrayal of accounts receivable.</p> <p>Horne LLP has identified accounts that it recommends for write off based on its review of accounts with dates of service prior to October 31, 2004. These accounts will be submitted for board approval at its June 2006 meeting.</p> <p>A procedure for making adjustments to accounts has been developed that requires approval of adjustment batches by either the business office manager or senior accountant. This will be reevaluated by the senior accountant for effectiveness and procedure will be reviewed for consistency at each facility.</p> <p>Resident trust fund activity reports are issued quarterly so that resident and/or responsible party can review for appropriate recording of income into the account and disbursements from the account.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Inaccurate accounts receivable records</li> <li>2. Ineffective collections efforts</li> <li>3. Lack of effective policies and procedures</li> <li>4. Misappropriation of resident trust funds</li> </ol>   |
| Controls put into place                 | <p>Policy and procedure for making adjustments to accounts receivable</p> <p>Policy and procedure for resident trust funds.</p>  |
| Evaluation                              | Controls need to be strengthened   |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Policy and procedure required to address write-off of accounts with submissions at least annually.</li> <li>2. Compliance testing must be expanded to include more testing of business office transactions, including adjustments.</li> <li>3. IT to research system to determine if posting of adjustment batches can be limited to specific users.</li> </ol>  |
| Monitor                                 | <ol style="list-style-type: none"> <li>1. Senior accountant must approve adjustments initiated by business office manager.</li> <li>2. Compliance testing to include adjustments to resident accounts receivable.</li> <li>3. Resident trust fund activity to be added to compliance testing.</li> </ol>   |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

A policy for annual submission of uncollectible accounts for write-off has been approved and incorporated into the Business Office Manual. Management believes this finding may not be repeated in fiscal year June 2007.



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| Finding                                 | 4. For the eighth consecutive year, management has not addressed the risk of theft of board capital assets, and the capital assets records have not been adequately maintained.  |
| Management comments                     | <p>Horne LLP reconciled the physical inventory listing with the accounting record and updated the accumulated depreciation records. The information will be imported into the accounting records in June 2006.</p> <p>The Horne report on fixed assets recommended monthly reconciliation of capital purchases to the accounting and fixed asset records. Because the import of capital assets was not done until June, monthly reconciliations were not done timely. In addition, monthly depreciation expense was misstated until the June 2006 financial statements were issued.</p> <p>Facility property managers, accounts payable staff, and accounting staff need to hold an in-service to address maintenance of the fixed asset records, capital asset additions, donated assets, and disposal of assets. It is imperative that we not allow our accounting records to lose the integrity provided from the work done by Horne.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Inadequate fixed asset records</li> <li>2. Theft of property</li> <li>3. Assets not tagged as property of TSVHB</li> <li>4. Misstatement of depreciation expense</li> <li>5. Failure to record donated assets</li> <li>6. Failure to reconcile accounting and fixed asset records timely</li> <li>7. Failure to properly record asset disposals</li> <li>8. Lack of adequate policies and procedures</li> </ol>  |
| Controls put into place                 | Policy and procedure on fixed assets and donated assets  |
| Evaluation                              | Ineffective  |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Reconciliation of monthly activity for FY 2006</li> <li>2. Monthly reconciliations performed timely thereafter</li> <li>3. Recommended in-service of appropriate staff</li> <li>4. Review and expansion of policies and procedures</li> </ol>  |
| Monitor                                 | <ol style="list-style-type: none"> <li>1. Reconciliation of accounting records and fixed assets to be added to month-end checklist and reviewed by finance director</li> <li>2. Compliance testing must include fixed asset process and records</li> </ol>   |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

Import of the asset information has been outsourced with Way Points and is expected to be completed shortly. The Finance Director is responsible for the reconciliation of additions and deletions of fixed assets and restatement of accumulated depreciation. Management believes this finding may not be repeated in fiscal year June 2006.

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| Finding                                 | 5. For the third consecutive year, management has not assessed and mitigated the risks of lost revenues caused by the lack of collections efforts for accounts receivable.   |
| Management comments                     | <p>Accounts receivable records that contain years worth of uncollected accounts and large credit balances demonstrate lack of focus on behalf of the management companies hired to direct the operations of the homes and on behalf of the Board's management team. High turnover in the business offices and hiring employees without appropriate skills added further complications.</p> <p>Maintaining old, uncollectible accounts on the books makes it difficult for the business offices to focus on those accounts that need follow-up. Approval by the State to write-off accounts and the adjustments of Medicaid credit balances as identified by in the Horne LLP report will reduce the number of accounts on the AR aging reports. Additional accounts identified by Horne LLP and recommended for write-off will be taken to the Board at its June 2006 meeting for approval. When approved by the State, the additional write-off will further reduce the number of outstanding accounts, leaving accounts for which the business offices must document collections efforts.</p> <p>Each account submitted for write-off is a loss of revenues. Ineffective and/or non-existent collections efforts cannot be allowed to continue. Collection efforts must be in accordance with Board policy and must be documented.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Inadequate collection efforts</li> <li>2. Ineffective policies and procedures for collections</li> <li>3. Collection efforts not documented</li> <li>4. Uncollectible accounts not submitted for write-off</li> <li>5. Inconsistent policies and procedures between facilities</li> <li>6. Accounts not submitted to collection agency and/or Attorney General</li> <li>7. Incorrect addresses for responsible parties</li> <li>8. Overstatement of accounts receivable balances and reserve for uncollectible accounts</li> </ol>   |
| Controls put into place                 | Written policies and procedures on collections of accounts   |
| Evaluation                              | Controls must be strengthened since accounts are not being worked as directed  |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Senior accountant to work with business office managers to develop a plan of action and provide training on technique and documentation. Accounts will be submitted to the AG's Office according to Board policy.</li> <li>2. Senior accountant will ask for instruction on collections tracking in ULTRACare and write a policy and procedure instructing the business offices on its use. If collections tracking is determined not suitable for our needs, an alternative means of documenting in the system will be investigated.</li> <li>3. Action plan to be submitted to finance director for approval. Monthly written reports will be submitted to the finance director with a copy of the facility's month end aging report.</li> </ol>   |
| Monitor                                 | Approved action plan with monthly reports to the finance director and included in scheduled reports to the Audit Committee   |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

A Director of Patient Financial Services was hired in March 2006 with primary responsibility for the business offices. His first focus was on the billing and collection of unpaid Medicare claims. He next worked with the business offices on rebilling insurance for secondary coverage. With the write-off of uncollectible accounts, he will focus the business offices on resolution of older balances due and credit balances.

Of the \$16 million collected in fiscal year 2006, \$2.6, or 16%, was for previous fiscal years. The accounts receivable aging reports at June 30, 2006 total \$3,278,494. Billings for the last two months of the fiscal year, May and June 2006, make up \$1,960,616, or 60%, of this total. Open invoices for fiscal year 2005 represents 18% of outstanding receivables. The remaining outstanding accounts receivable are for years prior to 2005.

Management is committed to the continued clean up of old accounts and to collections of monies properly owed. Emphasis will be maintained on accounts receivable billing and collections in fiscal year 2007. Management believes this finding may not be repeated in fiscal year June 2007.

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| Finding                                 | 6. The board still did not address the risk of fraud and, for the second consecutive year, has no policies and procedures in place regarding the authorization or use of credit cards and open balance accounts.   |
| Management comments                     | <p>Fraud risk assessment has not been done. Future reports to the Audit Committee will include risk assessment of processes.</p> <p>A policy on the use of credit was approved by the Board Sep 29, 2005. The executive office policy and procedure was approved Feb 8, 2006. Facility level policies and procedures were not developed until Jun 2006.</p> <p>Purchasing and accounts payable are addressed in findings 7 and 8.</p>  |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. No policy to address who is authorized to request credit with vendors</li> <li>2. No controls for advance approval of purchases made by credit</li> <li>3. Untimely approvals</li> <li>4. No control to ensure timely or correct payments for credit purchases</li> <li>5. Appropriate support not always required</li> <li>6. Uncontrolled access to credit</li> <li>7. Fraudulent charges</li> <li>8. Payment for inappropriate goods or goods for personal use</li> <li>9. Reconciliations of receipts to the billing statement not done</li> </ol>   |
| Controls put into place                 | <ol style="list-style-type: none"> <li>1. Policies and procedures developed to address use of credit</li> <li>2. Policies and procedures developed to address purchasing process</li> <li>3. Training and in-service of staff on purchasing process</li> <li>4. Compliance testing of purchases made by credit card</li> <li>5. Compliance testing of authorized users and credit card log</li> </ol>  |
| Evaluation                              | <p>Fraud risk assessment not done</p> <p>Need to strengthen controls on vendors and credit limits</p>  |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Purchases made that are not in compliance result in employee being written up and further training.</li> <li>2. Extensive training of AP staff continues to take place. All AP packages are reviewed by the staff accountants prior to being approved for payment and prior to checks being printed.</li> <li>3. All credit applications are completed at the executive office level and copies kept on file.</li> <li>4. Finance director needs to review accounts with vendors who allow facilities to buy on credit; e.g. food, and confirm credit limits. This information can be captured in the vendor files. Policy and procedure needs to be developed to address this area of vendor file maintenance.</li> </ol> |
| Monitor                                 | <ol style="list-style-type: none"> <li>1. Monthly compliance testing</li> <li>2. Vendors who provide credit shall be contacted annually to determine any unauthorized changes made to either billing or delivery addresses and to the amount of credit authorized.</li> <li>3. Data entered into vendor files regarding credit and credit limits to be verified and documented</li> </ol>  |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

The Board approved a policy on the use of credit in September 2005. The executive office policy, approved in February 2006 supports the Board policy and provides more direction in the appropriate procedures to use when making a purchase using credit.

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| Finding                                 | 7. For the fifth consecutive year, the board has not addressed the risk of unauthorized purchases.  |
| Management comments                     | <p>Purchasing policies were not being followed. There has been a great deal of improvement in this area. With the implementation of the electronic requisitions module, there are no longer paper PO's that can be filled out after the fact. Both approvals for purchase and documenting receipt of goods have improved dramatically this fiscal year.</p> <p>AP staff has been trained in the expectations of their position. Murfreesboro AP began enforcing the policies and procedures quickly. We have had to replace the AP position at Humboldt, but expect the AP clerk to enforce the Board's policies and to exhibit quality in the job performance.</p> <p>We are still not in compliance with the State requirements for service contracts. This continues to be a challenge since everything from medical director to pest control requires approval through the Office of Contract Review.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Policies and procedures not being followed</li> <li>2. Contract payments not always properly invoiced or reviewed</li> <li>3. Possibility for payment for personal items</li> <li>4. Payment for services the Board would not have been obligated to pay</li> <li>5. No documentation of quotes for purchases that require either informal quotes or written bids</li> <li>6. Receiving documents are signed by staff who did not see delivery of goods or knowing the services were provided</li> <li>7. Contract approvals for services not in accordance with state law</li> <li>8. Contract files not maintained at facility level</li> <li>9. Contract payments not properly invoiced or reviewed</li> </ol>   |
| Controls put into place                 | <ol style="list-style-type: none"> <li>1. Updated policies and procedures</li> <li>2. Training and in-service on policies and procedures</li> <li>3. Review of all accounts payable packages prior to checks being printed</li> <li>4. Copy of contract required as documentation for standing PO</li> <li>5. Matrix developed to list all contracts by home, with contract terms</li> </ol>  |
| Evaluation                              | Effective except for service contracts  |
| Corrective action or consequence        | Plan of action to address deficiencies in obtaining State approval for service contracts needs to be developed with realistic and achievable suspense dates.  |
| Monitor                                 | <ol style="list-style-type: none"> <li>1. Compliance testing of purchasing and AP processes</li> <li>2. Progress report to Audit Committee on service contracts</li> </ol>  |
| Audit Committee:<br>assess for adequacy |   |

Further Comments:

Compliance in the purchasing area has improved in fiscal year 2006 and reinforced with training and disciplinary actions as needed. Management believes this finding may not be repeated in fiscal year June 2006.

The position of contract officer was created in the reorganization of the executive office. Each facility has or should have approximately 35-40 contracts. Of these, approximately 75% or more are non compliant in one form or another. The newly appointed Contract Officer is in the

beginning phases of an organization-wide review of contracts, along with a thorough review of State contracting regulations and TSVHB policy in order to bring contracts into full compliance. This will be a lengthy process because of the number of contracts involved, but with an individual assigned to address this issue on an almost full time basis, we anticipate seeing measurable progress and improvement in this area in the very near future. Management believes this finding may not be repeated in fiscal year June 2007.

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| Finding                                 | 8. For the sixth consecutive year, management has not assessed and mitigated the risk that the facilities may pay for goods not received.  |
| Management comments                     | Documentation of goods received was also addressed in finding 7.<br><br>Management believes additional training is necessary to ensure employees understand the significance of signing receiving documents. Their signature indicates verification they were involved in the receiving process of matching the goods received with either a packing slip or copy of the PO, and that the count and item description match what was delivered.   |
| Risk assessed                           | 1. Theft of equipment and supplies by employees<br>2. Short deliveries made by vendor going undetected<br>3. Payment for good not received   |
| Controls put into place                 | 1. Policies and procedures<br>2. In-service and training   |
| Evaluation                              | Although documentation is appropriate, management is concerned employees may lack a true understanding of the receiving process.   |
| Corrective action or consequence        | 1. Management will investigate further to see if receiving is being made in accordance with policy or if employees are signing because it is understood two signatures are necessary instead of two people need to receive the goods and verify delivery.<br>2. Management will talk with key employees, hold further in-service, and observe receiving procedures at facilities.<br>3. Vendors must be notified not to mix current delivery with stock on hand until count is performed. A letter will be developed by AP and staff accountants for approval by the finance director and will be mailed to selected vendors. Staff must be diligent in reinforcement with delivery persons. |
| Monitor                                 | 1. Compliance testing of AP documentation<br>2. Observe receiving practices at the facility level  |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

Compliance in the purchasing area has improved in fiscal year 2006 and reinforced with training and disciplinary actions as needed. All accounts payable packages are reviewed for completeness prior to checks being printed. Management believes this finding may not be repeated in fiscal year June 2006.

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| Finding                                 | 9. For the fourth consecutive year, management has not assessed and mitigated the risks associated with travel reimbursements, resulting in excessive reimbursement of over \$1,350.   |
| Management comments                     | Travel claims must be completed in accordance with Finance and Administration Policy 08 and TSVHB policy. Specific individual at facilities and executive office were assigned the task of reviewing all travel claims for completeness and accuracy prior to giving to AP for review and payment. Humboldt designated the AP clerk as the person to do the review, so there was no third party review. This has now been assigned to another individual.<br><br>The person who does the review must have an understanding of State travel regulations and Board policies. Although rules and regulations have been in-serviced, additional training is recommended. |
| Risk assessed                           | 1. Incorrect amounts might be paid to employees<br>2. Claims filed may not be in compliance with State regulations   |
| Controls put into place                 | Review of travel claims by someone other than the person who approves the claim and AP   |
| Evaluation                              | 1. Further education of staff who travel is necessary so that claim can be completed correctly<br>2. Further education of staff who review the claim is necessary so that rules and regulations are adhered to   |
| Corrective action or consequence        | Incorrectly completed travel claims are returned to the employee for correction.   |
| Monitor                                 | Travel claims are included in compliance testing of AP   |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

Travel claims for executive office staff are reviewed by the executive secretary for completeness. All travel claims filed by the Homes are included in the monthly compliance testing and show compliance with rules and regulations. An in-service for facility staff who review and/or pay travel claims will be conducted by the executive secretary in August. This training will be incorporated into employee orientation for those employees who travel.



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| Finding                                 | 10. For the third consecutive year, because management has not assessed risk, internal controls for information systems are not adequate, leaving the board's records susceptible to fraud and improper alterations.   |
| Management comments                     | <p>User set up and access is initiated by the department supervisor. All users are set up in the system(s) by the IT Director based on the access established for the job position. Any deviation from the normal access must be also be authorized by the Financial Director. Users are made inactive when the IT department is notified by Payroll of any employee termination.</p> <p>Each user is given a copy of the Board's computer use policy and signs a indicating his/her understanding and agreement to follow the policy.</p> <p>Reconciliation between ULTRACare and the general ledger accounts shows an out-of-balance amount that has not cleared. In addition, there are some procedures set up to post to the wrong general ledger code.</p>  |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Wide-spread fraud risks</li> <li>2. Individuals have access to areas outside their functions</li> <li>2. Theft could be covered up by falsifying the records</li> <li>4. Disgruntled employees or hackers could sabotage system</li> <li>6. Fraud or intentional alterations of data could go undetected</li> <li>7. Employees with improper access</li> <li>8. Incomplete employee access request forms</li> <li>9. IT not notified timely of employee terminations</li> <li>10. Multiple user IDs</li> <li>11. Server rooms not restricted</li> <li>12. Accounts that show variances are not investigated and/or differences are not resolved</li> <li>13. Violation of HIPPA laws</li> <li>14. Lack of review of system set-up.</li> <li>15. Incorrect amounts reported as revenues and/or contractals.</li> <li>16. Misstatement of financial statements.</li> </ol> |
| Controls put into place                 | <ol style="list-style-type: none"> <li>1. Updated IT policies and procedures</li> <li>2. Updates to user access request forms</li> <li>3. Server rooms now kept locked</li> </ol>  |
| Evaluation                              | Inadequate   |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Write special report in ADP to list employee terminations with each pay run and send the report to the IT department. This will ensure timely notification. Modify current policy to include periodic review by department heads for verification of active employees.</li> <li>2. Senior accountant and finance director to work together to resolve out-of-balance issues to include review of billing set up. Access to system set up should be strictly limited. Establish policy that variances discovered in account reconciliations must be investigated and resolved in a timely manner.</li> </ol>  |
| Monitor                                 | Report to Audit Committee on progress of corrective action   |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

A risk assessment of information systems will be conducted this fiscal year.

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| Finding                                 | 11. Management's lack of organization increases audit risks and is an impediment to the audit process.  |
| Management comments                     | Missing documents impede the audit progress and points to a lack of control and organization on the part of management.   |
| Risk assessed                           | 1. Audit, if requested documents are not available, must perform more testing which leads to more time spent in the field.<br>2. Ineffective internal controls for simple document retention opens the possibility of fraud and increases the probability of audit disclaimer |
| Controls put into place                 | 1. Verbal in-service with AP and Business Office staff<br>2. Review of AP records for completeness in compliance testing  |
| Evaluation                              | Not effective   |
| Corrective action or consequence        | 1. Review file management systems in place and make recommendations for improvement<br>2. Develop written record retention policy<br>3. Include review of compliance of record retention policy   |
| Monitor                                 | Compliance testing and observation  |
| Audit Committee:<br>assess for adequacy |   |

Further Comments:

Management will develop a record retention policy and instruct staff on its requirements.

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| Finding                                 | 12. The Tennessee State Veteran's Homes Board has not segregated duties related to payroll, leaving the board vulnerable to inappropriate payroll payments  |
| Management comments                     | <p>TSVHB outsourced its payroll processing effective July 2005. ADP now performs certain functions that had been done by one staff member previously. This results in certain segregation of duties not previously possible.</p> <p>ADP provides a report that shows all changes to employee records made since the last pay run. This 'Payroll Change Report' is reviewed and signed off by the administrator. The same report is also reviewed by the staff accountant. Any unusual activity is questioned. Hours and pay rates of Payroll position and any family member or (known) close friend are always checked by the staff accountants with each pay run.</p> <p>There are no written payroll policies and procedures.</p> <p>A review of documentation for payroll changes, additions, and deletions is included in compliance testing at the facility level.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Lack of segregation of duties</li> <li>2. Lack of written policies and procedures for payroll cycle</li> <li>2. Unauthorized changes to pay records</li> <li>3. Possibility of fake employee being set up and paid</li> </ol>   |
| Controls put into place                 | <ol style="list-style-type: none"> <li>1. ADP processes checks and delivers checks already in envelopes to the facility. Payroll checks and Ws forms, if returned undeliverable, are forwarded to the staff accountant and not PR.</li> <li>2. Administrator signs off on changes to employee pay data. All changes are supported by 'change forms' initiated and signed by department supervisors. Staff accountants review 'Payroll Change Report' for unusual items.</li> <li>3. Compliance testing includes a review of new hires and supporting documentation.</li> </ol>  |
| Evaluation                              | <ol style="list-style-type: none"> <li>1. Processes in place mitigate identified risks with exception of policies and procedures</li> <li>2. Payroll processing policies and procedures must be developed</li> </ol>  |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Written policies and procedures must be developed</li> <li>2. Internal audit programs are available that compare duplicate social security numbers, addresses, phone numbers, and bank accounts. The cost and benefit of such a program should be investigated and considered for addition to the compliance testing.</li> </ol>  |
| Monitor                                 | Report back to Audit Committee results of research into internal audit programs that might address risks identified   |
| Audit Committee:<br>assess for adequacy |   |

Further Comments:

Outsourcing the payroll processing has enabled the Board to segregate duties within the payroll functional area. Management believes this finding will not be repeated in fiscal year 2006.

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| Finding                                 | 13. The board paid \$5,399 for an employee's board-issued cellular phone for nine months after the employee's resignation.  |
| Management comments                     | <p>The cell phone should have been collected by the facility as part of the standard procedure. The employee was allowed to keep the phone. This was an override of policy.</p> <p>It was only when a new AP clerk was hired that it was learned we were still paying for a cell phone no longer used by a TSVHB employee. At that time, the former employee was contacted and action was initiated to recover monies paid.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. An internal control was over-ridden by management.</li> <li>2. TSVHB might not recover all property issued to employees.</li> <li>3. TSVHB might pay for inappropriate charges.</li> </ol>  |
| Controls put into place                 | <ol style="list-style-type: none"> <li>1. None for management override</li> <li>2. A policy exists that requires all company issued property be returned upon an employee leaving employment of TSVHB.</li> <li>3. A policy and procedure has been developed specifically for approval and payment of Board issued cell phones.</li> </ol>  |
| Evaluation                              | <ol style="list-style-type: none"> <li>1. Not effective</li> <li>2. Policy needs to be strengthened and responsibility for obtaining company property assigned</li> <li>3. Cell phone policy is effective</li> </ol>  |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Review ethics statements with top management</li> <li>2. Provide anonymous means for employees to report suspicions of fraud and/or abuse</li> <li>3. Issuance of company property needs to be consistently documented</li> <li>4. Develop policy as in item #2 above</li> </ol>  |
| Monitor                                 | <ol style="list-style-type: none"> <li>1. Cell phone payments are included in compliance testing</li> <li>2. After policy developed and approved, it should be added to compliance testing</li> </ol>   |
| Audit Committee:<br>assess for adequacy |   |

Further Comments:

After suit was filed against the former employee and judgment found in favor of the Board, restitution was made for fraudulent charges made for cell phone use. The Attorney General's Office recommended no further action.

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| Finding                                 | 14. Duties for the Tennessee Veterans Home Foundation are not adequately segregated to deter receipting fraud, and as indicated in the prior audit, the improper accountability for restricted foundation accounts creates the risk that funds will not be used for their intended purpose.  |
| Management comments                     | <p>The Foundation board voted to dissolve at its meeting in May 2006. The dissolution of the Foundation will eliminate future Foundation-related findings.</p> <p>As part of the dissolution, all monies are to be transferred to TSVHB. The Board must honor and adhere to any donor restriction for funds transferred to it. The transfer is to be coordinated and accomplished by June 30, 2006. Procedures are being developed for future donations made to the Board.</p> <p>In-services must be held with facility staff for processes on cash receipts and cash disbursements and must include unrestricted and donor-restricted donations.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Lack of segregation of duties</li> <li>2. Misleading financial reports</li> <li>3. Donor restricted donations may not be properly recorded and honored</li> <li>4. No policies and procedures relating to donations to the Board now that Foundation is dissolved</li> </ol>   |
| Controls put into place                 | 1. Board policy for donations to be updated at its June 2006 meeting to address changes necessitated by Foundation dissolution   |
| Evaluation                              | Internal controls must be updated and strengthened to reflect changes  |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Board policy for donations to be updated at its June 2006 meeting to address changes necessitated by Foundation dissolution</li> <li>2. Procedure will be documented to ensure funds transferred to Board with donor restriction will be honored and used for intended purposes</li> </ol>   |
| Monitor                                 | <ol style="list-style-type: none"> <li>1. Reports of unrestricted and restricted donations and balances will be provided to Activities Director and Administrator monthly</li> <li>2. Compliance testing will be expanded to include donations when reviewing cash receipts and disbursements</li> </ol>   |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

The Foundation is in the process of dissolving and surrendering its charter. Funds held by the Foundation will be transferred to the Board. Monies with donor-imposed restrictions will be honored by the Board and used for the purpose intended by the donor. Management believes this finding will not be repeated in fiscal year June 2007.

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| Finding                                 | 15. The Murfreesboro facility had Medicaid residents with excessive resident trust fund balances that jeopardized their Medicaid eligibility  |
| Management comments                     | Medicaid residents cannot have trust funds in excess of \$2,000. To do so violates Medicaid rules and regulations and places in jeopardy the resident's eligibility under the Medicaid program.                             |
| Risk assessed                           | 1. Non compliance with Medicaid regulations.<br>2. Jeopardy to the resident's eligibility with the Medicaid program.  |
| Controls put into place                 | 1. Policy and procedure written that requires review of resident trust fund balances by business office and staff accountant.<br>2. Review of resident trust fund balances included in staff accountant's month end process |
| Evaluation                              | Policy is effective, but should also be included in Business Office Manual  |
| Corrective action or consequence        | Modify Business Office Manual to include review of resident trust fund balances for all Medicaid eligible residents   |
| Monitor                                 | Include in compliance testing   |
| Audit Committee:<br>assess for adequacy |   |

Further Comments:

Resident trust funds are reviewed closely by the business office and by the staff accountants and included as part of the month end close process. Management believes this finding will not be repeated in fiscal year June 2005.

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| Finding                                 | 16. The board and management have not assessed the risk of noncompliance with Internal Revenue Service regulations and as a result have not established adequate policies and procedures to report the personal use of the Executive Director's car.         |
| Management comments                     | The value of the personal use of the company furnished automobile was not included as a fringe benefit for income tax reporting purposes.  |
| Risk assessed                           | Non-compliance with IRS regulations  |
| Controls put into place                 | None   |
| Evaluation                              | Ineffective  |
| Corrective action or consequence        | 1. Policy and procedure needs to be developed to ensure value of automobile included on executive director's W2<br>2. Payroll processing check list to include entering appropriate data to executive director's taxable wages on monthly or quarterly basis |
| Monitor                                 | Include in compliance testing  |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

A policy on fringe benefits, personal use of a car, has been approved and incorporated into the proposed Accounting Manual. Management believes this finding will not be repeated in fiscal year June 2006.

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| Finding                                 | 17. Medicaid residents were charged more than private-paying residents.  |
| Management comments                     | <p>The board approved a room rate policy that provides for automatic board approval of a room rate increase in those circumstances where the Medicaid reimbursement rate exceeds the room rate charge. The policy was approved Sep 29, 2005. The board is still required to give a 30-day notice to residents prior to any room rate increase.</p> <p>Audit has identified in its 2005 audit a circumstance where Medicaid was charged more than private pay by \$1.58. The VA per diem is adjusted each year. This change in the VA per diem requires an adjustment to the room rate and reimbursement amount and to the calculation in the VA billing software. The change in the billing software was not done timely.</p> <p>A resident type for private skilled care needs to be set up in ULTRACare. Generally, residents who require skilled care meet the criteria for Medicaid or Medicare. For those few cases where a skilled resident is private pay, no resident type has been established. This would result in a loss of revenues and lead to a Medicaid resident being charged more than a private pay resident.</p> |
| Risk assessed                           | <ol style="list-style-type: none"> <li>1. Non compliance with Medicaid regulations</li> <li>2. Loss of revenues</li> <li>3. Lack of understanding of billing software</li> </ol>   |
| Controls put into place                 | <ol style="list-style-type: none"> <li>1. Board policy addresses the issue of Medicaid reimbursement rates exceeding room rates</li> <li>2. None for other risks</li> </ol>  |
| Evaluation                              | Inadequate   |
| Corrective action or consequence        | <ol style="list-style-type: none"> <li>1. Review VA billing set up</li> <li>2. Develop policy and procedure to address VA per diem rate changes</li> <li>3. Develop policy and procedure to address changes in room rates</li> <li>4. Develop policy and procedure to address reimbursement rate changes</li> <li>5. Set up resident type for skilled private pay resident</li> <li>6. Senior accountant to research and make recommendation for additional staff training</li> </ol>  |
| Monitor                                 | Include in scheduled reports to the Audit Committee  |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

A resident type for skilled private pay residents has been set up for use at the nursing homes. Policies for changes in the VA per diem, room rates, and reimbursement rates have been approved and incorporated into the Business Office Manual. Review of the set up of the VA billing module is scheduled for August 2006 with representatives of the software company.



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| Finding                                 | 18. Bank accounts are still not in compliance with Section 9-4-302, <i>Tennessee Code Annotated</i> , and Department of Finance and Administration Policy 07.  |
| Management comments                     | <p>Management filed applications upon learning of the requirement of having bank accounts approved by Finance and Administration. Applications were filed for all existing bank accounts in 2005. The applications for existing accounts included the account numbers, since that information was, obviously, known at the time.</p> <p>The recent change of our funds manager required moving bank accounts from Wachovia to Regions Bank. Applications were filed with F&amp;A and approval was received June 13, 2006. We are in the process of now opening those accounts with Regions Bank. Once the account numbers are assigned, we will notify F&amp;A.</p> <p>Audit commented that F&amp;A felt we had too many bank accounts. The bank accounts requested were those mandated by the Funds Management Guidelines. F&amp;A has approved all current accounts.</p> |
| Risk assessed                           | Bank account changes will not be in compliance with TCA and F&A policy.  |
| Controls put into place                 | Policy and procedure has been written to address the establishment of bank accounts and changes to the accounts.   |
| Evaluation                              | Policy is effective  |
| Corrective action or consequence        | Listing of bank accounts approved by F&A shall be periodically compared with bank accounts being utilized shall be provided to the Audit Committee annually or upon request  |
| Monitor                                 | Required reporting to Audit Committee will mitigate the possibility of management override of policy   |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

As of December 2005, all bank accounts are in compliance with Finance and Administration policy. Management believes this finding will not be repeated in fiscal year June 2006.

TENNESSEE STATE VETERANS HOMES BOARD  
REPORT TO THE FISCAL REVIEW COMMITTEE  
JULY 25, 2006

|   |  |
|---|--|
| Finding                                 | 19. The board failed to submit in a timely manner a Title VI plan relating to compliance with the Civil Rights Act of 1964.  |
| Management comments                     | Compliance required for agencies who receive Federal funds. Annual report required to the Title VI Compliance Commission and to the Department of Audit by June 30.                          |
| Risk assessed                           | Failure to timely file annual compliance report  |
| Controls put into place                 | A matrix has been developed that lists due dates for all reporting requirements. This matrix is updated as necessary and monitored by the executive assistant for upcoming filing deadlines. |
| Evaluation                              | The control requires someone to remember to look at the matrix and notify appropriate staff.   |
| Corrective action or consequence        | Recommend completion of matrix on fiscal year basis with report to executive director monthly to prevent items being overlooked  |
| Monitor                                 | Executive director shall provide annual update to the Board each June  |
|   |  |
| Audit Committee:<br>assess for adequacy |  |

Further Comments:

Annual updates to the Title VI Plan have been filed timely for fiscal years June 2005 and June 2006. Management believes this finding will not be repeated in fiscal year June 2005.

